

Leicestershire Police Authority

Cash, Banking and Treasury Management (10.09/10)

Internal Audit Report
7 December 2009

FINAL

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Debrief meeting:	1 October 2009	Auditors:	Chris Harris- Partner
Draft report issued:	23 October 2009		Suzanne Lane - Client Manager
Responses received:	7 December 2009		Rob McCulloch - Senior Auditor
Final report issued:	7 December 2009	Client sponsor:	Paul Dawkins - Force Financial Director
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This review has been performed using RSM Bentley Jennison's bespoke internal audit methodology, **i-RIS**.

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

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1 Executive Summary

1.1 Introduction

An audit of Cash, Banking and Treasury Management was undertaken as part of the approved internal audit periodic plan for 2009/10.

The Treasury Management Policy and Strategy for 2009/10 was approved by the Police Authority in March 2009 and is subject to annual review.

Based on actual and projected cash flows the Authority will invest surplus only with recognised financial institutions up to maximum of £5million with any one body. Following the recent banking crisis the number of institutions with whom the Authority could invest in has been dramatically reduced, in addition this has been reviewed and revised where required at each Finance and General Purpose Committee meeting.

The Authority is required to keep at least £500,000 on an overnight deposit basis with its main bankers, NatWest. All other deposits will be term based and be no longer than 364 days in length in accordance with the Treasury Management Strategy and Policy.

The objective of the audit was to ensure the Force adequately manage its cash flow and treasury arrangements and maximises available funds.

1.2 Scope of the review

The objective of our audit was to evaluate the adequacy of risk management and control within the system and the extent to which controls have been applied, with a view to providing an opinion.

Control activities are put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively.

When planning the audit the following limitations were agreed:

Limitations to the scope of the audit:

- We will not seek to verify the appropriateness of receipts; we will confirm only that they have been processed as required.
- We have not substantively re-perform reconciliations.
- Our review does not provide an opinion on the appropriateness or security of Leicestershire Police Authority's investments or banking deposits, or of the appropriateness of its investment policies.
- Our audit does not seek to replicate advice, if provided, by your treasury management or investments advisor.
- Any testing undertaken as part of this audit will be compliance based and sample testing only.
- Our work does not provide any guarantee against material errors, loss or fraud or provide an absolute assurance that material error, loss or fraud does not exist

The approach taken for this audit was Key Controls Testing and included the following:

- Establishing the controls for which external audit intends to place reliance on internal audit testing.
- Testing to assess the extent or cause of problems identified.

1.3 Conclusion

Taking account of the issues identified, in our opinion the Authority can take substantial assurance that the controls upon which the organisation relies to manage this area, as currently laid down and operated, are effective.

This assurance level has been formulated on the basis of conclusions drawn on the individual elements of design and application of controls in place:

	SUBSTANTIAL	ADEQUATE	LIMITED
DESIGN OF CONTROL FRAMEWORK	X		
APPLICATION OF AND COMPLIANCE WITH CONTROL FRAMEWORK	X		

OVERALL OPINION

X

The above conclusions feeding into the overall assurance level are based on the evidence obtained during the review.

1.4 Recommendations Summary

The following tables highlight the number and categories of recommendations made, showing which have been brought forward from previous audits. The Action Plan at Section 2 details the specific recommendations made as well as agreed management actions to implement them.

Recommendations made during this audit:

AREA	FUNDAMENTAL	SIGNIFICANT	MERITS ATTENTION
CASH, BANKING AND TREASURY MANAGEMENT	0	0	1

Recommendations implemented since the previous audit in this area:

DATE OF PREVIOUS AUDIT: 23 September 2008

RECOMMENDATION CATEGORIES	FUNDAMENTAL	SIGNIFICANT	MERITS ATTENTION
NUMBER OF RECOMMENDATIONS MADE DURING PREVIOUS AUDIT	0	0	1
NUMBER OF RECOMMENDATIONS IMPLEMENTED	0	0	1
RECOMMENDATIONS NOT YET FULLY IMPLEMENTED:	0	0	0

We are pleased to note that the recommendation agreed at the previous audit has now been implemented.

2 Action Plan

REF	RECOMMENDATION	CATEGORISATION	ACCEPTED Y/N	MANAGEMENT COMMENT	IMPLEMENTATION DATE	MANAGER RESPONSIBLE
1.11	Backing documentation to support investments should be held to provide an audit trail of who was invested with and why that organisation was chosen. For, example because they were the best rate or the only one available etc.	Merits Attention	Y	Agreed. Whilst an analysis template has been available for some time this was not always printed to evidence the decision	With Immediate Effect	Head of Finance

3 Findings and Recommendations

	CONTROLS (ACTUAL AND/OR MISSING)	ADEQUATE DESIGN(YES/NO)	TEST RESULT / IMPLICATIONS	RECOMMENDATION	CATEGORISATION
1.1	<p>Key requirements in relation to cash, banking and treasury management are detailed in the Financial Procedures and include aspects such as:</p> <ul style="list-style-type: none"> • Bank reconciliations • Dealing with cheques. • Sales invoice income. • Receipting of income. • Cash received. • Use and management of Imprest Accounts. <p>Additionally there is a section on Treasury Management, which provides an overview of the main requirements on borrowing and investing. More detailed requirements and procedures are contained in the separate Treasury Management Strategy and Policy and procedure notes.</p> <p>All relevant documents are made available to staff via the Intranet.</p>	Yes	<p>We consider from our review of the Financial Procedures, Treasury Management Strategy and Policy and accompanying procedures that these adequately detail the main operational requirements for the cash, banking and treasury management system. We confirmed by review that these documents are available on the Intranet.</p>		
1.2	<p>Banking is undertaken by staff within the Finance Department on a weekly basis.</p>	Yes	<p>The Assistant Accountant confirmed that the banking is still undertaken by two members of the Finance Department and that no external security firms are used.</p>		
1.3	<p>All post is opened in the</p>	Yes	<p>We confirmed through discussion with the</p>		

	CONTROLS (ACTUAL AND/OR MISSING)	ADEQUATE DESIGN(YES/NO)	TEST RESULT / IMPLICATIONS	RECOMMENDATION	CATEGORISATION
	<p>Payroll Department and any mail, including monies received destined for the Corporate Finance Department is placed in the in-tray and this is emptied several time a day by the Finance Assistant. Details of the monies received are recorded on the weekly income spreadsheet that is used for posting and banking purposes. At the end of the week the spreadsheet is totalled and reconciled to the monies held and this is independently verified by another member of the Finance Team.</p>		<p>Payroll Administration Assistant and by review/observation that when the post arrives all documents are date stamped. Any item relating to the Corporate Finance Department, including cheques, are put in a filing tray designated for this Department within the Payroll office.</p> <p>The Finance Assistant will collect the items in this tray several times a day. However it should be noted that if a particularly large cheque is received in the Payroll Department, the Payroll Administration Assistant will personally take it to the Corporate Finance Department for safe keeping.</p> <p>Once received in Corporate Finance, the cheques are logged on a weekly spread sheet with all the details required to post the item to the system by the Finance Clerk. Cheques are then banked every Friday.</p>		
1.4	<p>The Authority uses the NatWest Bankline to transfer funds between accounts and make payments. Access to the system is through individual system passwords and individual 'Smart cards' held by the relevant staff and operated using a unique pin number. The Head of Finance, Corporate Accountant and Trainee Accountant have been issued with 'Smart cards'.</p> <p>The system has split authorisation levels whereby a</p>	Yes	<p>It was confirmed with the Assistant Accountant that these controls are in place.</p> <p>It was confirmed that all three card holders have their own passwords and pin numbers and do not know any of the others.</p>		

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	transfer can be entered by the Assistant Accountants, but must be authorised by one of the Senior Accountants or the Head of Finance.				
1.5	Imprest cheques are authorised in accordance with the Authority's bank mandate. BACs transmissions are carried out by the payments officer and authorised by a senior officer. Individual amounts under £20,000 require one signature and amounts over this require two signatures.	Yes	It was confirmed with the Assistant Accountant that these controls are in place and that the bank mandates are up to date. There has been no change to the HQ imprest account mandate, and a copy of the original mandate together with the documentation for the two subsequent amendments has been filed. We reviewed an example of the documentation in respect of a recent change to another bank mandate. In both cases the documentation appears to have been completed correctly and appropriately authorised.		
1.6	The Authority operates an HQ Imprest Account from which cheques or cash are obtained and the account is subject to a monthly reconciliation imprest standard petty cash imprest system which is reconciled every month. All claims are made on standard official forms authorised by the relevant budget holder and supported by receipts or vouchers.	Yes	<p>We have confirmed by testing a sample of imprest reconciliations and payments, that the account is reconciled and approved on a monthly basis and that claims are supported by authorised vouchers with receipts attached where appropriate.</p> <p>We tested the reconciliations for 3 months and the claims from 1 day from each of these months, a total of 23 individual claims.</p> <p>As last year, exceptions were found in respect of payments to informants where the authorisation had been typed rather than signed. We have previously undertaken a review on 'Covert Payments' and found that there were satisfactory compensating authorisation controls within this system.</p> <p>Although all claims tested had been authorised, there are no procedures to</p>		

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			<p>ensure that the person authorising the claim is entitled to do so. The Authority relies on the individual departments or sites to carry out their own authorisation procedures effectively. This issue was raised in our Payroll and Expenses audit with the Head of Finance who stated that it would be impractical to check all authorising signatories, with over 300 Sergeants for example who can authorise claims. She was satisfied that there was minimum risk and adequate compensating controls, with the input of claims having to be authorised and monthly budget reviews by senior management who would investigate any unusual variances.</p>		
1.7	<p>Within the HQ building there are two safes.</p> <p>One safe is in the Payroll Department where cheques received are kept before being banked. This safe is also used to make petty cash payments. All Payroll staff and Finance Officers have access to this safe.</p> <p>There is a second safe ('408') located on the ground floor which contains blank cheques and can only be accessed by a key which is held in reception. This safe can only be accessed by Finance Officers; there must be two Officers who must both sign for the key in a reception key log. Reception staff are made</p>	Yes	<p>We reviewed the reception key log book and confirmed that two signatures are required from Finance Officers when requesting the key to safe 408, checking one day from each month from the current financial year. We also confirmed with Reception Staff that they are aware of this requirement and that they know who the Finance Officers are.</p> <p>The key to the safe in the Payroll Department is kept by the Payroll Administration Officer, and anyone who requires access to the safe must obtain the key from her. A second key is kept by the Payroll Services Manager, or the Deputy Payroll Services Manager in her absence.</p>		

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	aware of this regulation and who the Finance Officers are.				
1.8	<p>Cash and cheques received are banked at least once a fortnight by one of the assistant accountants. A spreadsheet detailing the income banked is maintained by the Finance Clerk which is used for posting the income to the general ledger and for banking purposes.</p> <p>BACS receipts are recorded from bank documentation onto a weekly summary spreadsheet which is agreed to the appropriate posting batches. This spreadsheet is signed or initialled by both the preparer and the checker.</p>	Yes	<p>We confirmed by checking a sample of 10 cheque or cash receipts and 5 BACS receipts, covering both sales ledger and non sales ledger receipts, that such receipts are accurately and promptly recorded, posted and banked.</p>		
1.9	<p>There is adequate segregation of duties between Officers responsible for:</p> <ul style="list-style-type: none"> • Undertaking bank reconciliations, • Receiving and recording income, and • Posting income to the general ledger. 	Yes	<p>We confirmed by discussion with the Finance Officers and from our audit work carried out throughout the audit that there is adequate segregation of duties in respect of income received, except that the Finance clerk is involved in receiving, recording, banking and posting income.</p> <p>There are a number of compensating factors however in that:</p> <ul style="list-style-type: none"> • All income is paid into one bank account, the Police Fund account, which is reconciled by the Assistant Accountant and reviewed by both the Trainee Accountant and the 		

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			<p>Corporate Accountant;</p> <ul style="list-style-type: none"> • Banking is always carried out by two Finance Officers; • Cheques are made out to the Authority so it is unlikely that the Authority would suffer loss from these; • The value of cash received is very low, typically around £200 per week, so no material loss could arise from this; • Receipts are issued by the Finance Clerk for cash received; these are recorded in a book and are in sequential pre-numbered order; • The respective individual departments should monitor their income and check that it has been correctly accounted for. • A further control is that the Finance Director and the Head of Finance overview the transactions and reconciliations for each month through their review of the monthly Performance Monitoring File. • In last years audit we made a recommendation that an Assistant Accountant would agree cash received as recorded on the weekly receipts spreadsheet to the official receipt book and countersign the spreadsheet as evidence of this. Testing in this years work has confirmed that this recommendation 		

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			<p>has been implemented.</p> <p>It was agreed with the Head of Finance that as a result of these factors, she is satisfied that material loss to the Authority is unlikely as a result of this lack of segregation of duties. She furthermore considers that it would be impractical and not cost effective to implement further segregation within this function.</p>		
1.10	<p>The Treasury Management Policy and Strategy together with the Financial Procedures and detailed department procedure notes, adequately outline the procedures for Treasury Management.</p> <p>In addition, the Investment Strategy is reviewed on a regular basis to ensure that the institutes identified within the Treasury Management Strategy remain appropriate.</p> <p>Two senior Corporate Finance officers are responsible for the cash flow and treasury management functions, performing their duties one month each alternatively, and are well experienced in these roles. A third officer, the Trainee Accountant, assists them.</p>	Yes	<p>We confirmed with the Corporate Accountant that these procedures are in place. The Treasury Management Strategy and Policy clearly outlines the requirements of this function and is approved every year. We confirmed that the Strategy and Policy for 2009/10 were reviewed by the Finance and General Purposes Committee at their March 2009 meeting.</p> <p>We confirmed that a revised Investment Strategy was presented to the Authority in May 2009 updating the approved organisations. We found that as part of this the Authority have registered with the Government Debt Management Office so that investments can be placed with their deposit facility and security is guaranteed, although interest rates have been lower than the rest of the market in the past.</p> <p>Through review of the application we confirmed that this was approved y the Treasurer prior to monies being invested with the Debt Management Office.</p>		
1.11	Any surplus of funds is invested appropriately depending upon anticipated forthcoming cash flow	Yes	The Treasury Management Strategy states that 'the overall objective is to balance risk against return. The avoidance of risk takes precedence over maximising returns.' The	Backing documentation to support investments should be held to provide an audit trail of who was invested with and why that organisation was chosen. For, example because they were the best	Merits Attention

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	<p>requirements.</p> <p>As outlined in the Treasury Management Strategy, the main objective of the Authority is to maximise returns. This is subject to the overriding consideration of security of the loans or investments when selecting the organisations to which funds are lent or deposited with. A list is therefore maintained of organisations approved for deposits with any limits specified.</p>		<p>Strategy and Policy were revised and approved by the Finance and General Purposes Committee at their March 2009. At the revision the opportunity was taken to revise the number of institutions with whom deposits could be placed.</p> <p>All current long term deposits are with institutions included on the list of authorised depositors; as noted in previous years, £500,000 is deposited with NatWest as they are the Authority's principal bank and it is a condition of free banking with them to invest a minimum of this sum with them.</p> <p>We reviewed the documents for four investments and that the backing documentation to support why an investment was made with a specific institute was not held. (However, we did see these for some of the other dates held) Retaining the supporting evidence to show why an investment was made provides an audit trail in case of any future query.</p> <p>For each of the four investments reviewed we found that the confirmation of the investment has been checked to ensure that the amount, duration and rate were accurate.</p>	<p>rate or the only one available etc.</p>	
1.12	<p>A list is maintained of institutions approved for Treasury transactions. One of two assigned Senior Finance Officers, the Corporate Accountant and the Head of Finance, undertake the Treasury and cash flow management duties.</p>	Yes	<p>It was confirmed by discussion with the Corporate Accountant and by review of the Strategy, Policy and Procedures that adequate details on the requirements to be followed in respect of treasury management activities have been documented.</p> <p>The Strategy details the institutions that may be used and we confirmed that one of the</p>		

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	<p>They undertake the Treasury transactions according to the cash flow requirements and access to the Bankline system to process the transactions is restricted by the use of passwords and pin numbers. A second person is not required by the system to verify the transactions.</p> <p>The Finance Director is responsible for setting up the templates for Treasury transactions with the opportunity for new set ups on the Bankline system thus well restricted.</p> <p>The Finance Director reviews the transactions completed each month as part of his review of the Performance Monitoring files and he would discuss any queries arising with the appropriate Finance Officer.</p>		<p>two assigned Senior Finance Officers, the Corporate Accountant and the Head of Finance, undertake the Treasury management and cash flow duties, assisted by the Trainee Accountant. Control over access to the Bankline system was validated in earlier testing and although the Treasury management and cash flow functions are performed by the same person, this alternates each month, and the transactions are reviewed by a senior official, which we consider acceptable.</p> <p>We have checked that the monthly Performance monitoring reports are being initialled by both the Head of Finance and the Finance Director, and copies of the relevant extracts of the June 2009 reports were reviewed and noted that these included the summary schedules, the schedules relevant to the Treasury Management function and were initialled and dated as reviewed.</p> <p>The Corporate Accountant confirmed that the Finance Director would discuss any queries with himself or the Head of Finance but these are rare and not documented.</p> <p>We confirmed that the Treasury Management Performance review report for 2008/09 that was compiled by the Treasurer was presented to the Finance and General Purposes Committee at their September 2009 meeting.</p>		
1.13	<p>The Authority only undertakes medium to long term loans for capital expenditure.</p> <p>New loans or loan facilities taken have been authorised</p>	Yes	<p>It was confirmed with the Corporate accountant that these controls are in place but that no loans have been taken out by the Authority in the current financial year and there have been no draw downs. All</p>		

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	<p>by the Authority after appropriate consideration of the loan requirements, and processed in accordance with the terms of the loan agreement.</p> <p>The Authority retains relevant associated documentation including a signed and dated copy of the loan agreement.</p> <p>The use of brokers or similar 'middlemen' is controlled, approved, recorded and monitored by senior management.</p>		expenditure has been financed from internal funds.		
1.14	<p>An annual cash flow forecast is produced which includes known income, such as grants, precepts, maturing loans & investments and other funding and expenditure. The main expenditure is payroll costs which are initially estimated then amended to actual when incurred.</p> <p>The cash flow spreadsheets are continually updated to reflect actual cash flow and new information, and are regularly monitored.</p>	Yes	It was confirmed with the Corporate Accountant and through review of the 2009/10 cash flow forecasts that these have been prepared for the current financial year with all known income and expenditure entered. Forecasts are subject to ongoing monitoring and updating as detailed in later testing.		
1.15	Actual cash flow is recorded and monitored against the forecast and any significant variations are investigated by the monitoring officer. Details are recorded on the cash flow	Yes	It was confirmed by the Corporate Accountant that the cash flow forecasts are continually monitored by himself or the Head of Finance against actual with any significant variances investigated, explanations obtained and amendments made if		

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	forecast for reference.		<p>necessary. He noted that this is facilitated by the major cash flows being fairly predictable.</p> <p>If investigation of the variances reveal that action should be taken, this is discussed by the senior finance officers and that action agreed and executed; this will not necessarily be documented but the Corporate accountant could not think of any such situation in the current financial year.</p> <p>We noted that the cash flow for September & October '2009 shows comments entered, and a log of key variances with comments, to explain unusual items.</p> <p>We also confirmed in earlier testing that the Finance Director reviews the monthly cash flow as part of the monthly Performance Monitoring file.</p>		
1.16	Adequate management information in respect of income and expenditure with sufficient analysis is available in order to produce reliable cash flow forecasts. This includes grants, precepts, maturing loans & investments and other funding for income, and principally estimated payroll costs & deposits made for expenditure.	Yes	It was confirmed with the Corporate Accountant that sufficient adequate management information is available to enable a reasonably accurate cash flow forecast to be prepared and monitored, and this is supported by the other tests we have carried out on the cash flow function.		
1.17	The bank accounts are reconciled to the General Ledger on a monthly basis. The reconciliations are carried out by a Finance Officer or Assistant Accountant and are reviewed by a Senior	Yes	<p>We reviewed the reconciliations for the months of may, June and July 2009 for the following bank accounts:</p> <ul style="list-style-type: none"> • Police Fund. • EMSOU. 		

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	Accountant.		<ul style="list-style-type: none"> • Salaries. • Payables • SIBA <p>Testing of these confirmed that they had all been prepared and reviewed by an appropriate finance official on a monthly basis. The reconciliations are all initialled and dated as evidence of preparation and review, and supporting documentation was attached where relevant.</p>		
1.18	Monthly cash flow forecasts are prepared by a Senior Finance Officer on a rolling basis which show forecast income and expenditure for each day of the month.	Yes	<p>It was confirmed with the Corporate Accountant that cash flow forecasts are prepared by either himself or the Head of Finance, assisted by the Trainee Accountant. The forecast is on a daily basis divided into monthly sections and has been prepared as far as possible to March 2010.</p> <p>A review of the forecast for the previous and current months, September & October '09, together with the 2009/10 log of key variances with comments confirms that details of forecast income and expenditure have been entered on a daily basis. We have reviewed the forecast on screen and confirmed that it has been prepared to March 2010 but understandably with decreasing information entered towards the end of the year.</p>		
1.19	Actual cash flow is recorded and monitored against the forecast and any significant variations are investigated by the monitoring officer. Amendments to the cash flow are made if necessary and the	Yes	We confirmed in earlier testing that significant differences between actual and forecast cash flows are investigated, explanations obtained with brief notes entered on the cash flow and amendments made if necessary. A log of significant variances with comments is also maintained		

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	details are recorded on the cash flow forecast for reference.		and a copy of this for 2009/10 to date was reviewed.		
1.20	Weekly cash flow forecasts are prepared by a Senior Finance Officer at least three weeks in advance and are used to plan the daily cash flow forecasts.	Yes	<p>It was confirmed with the Corporate Accountant that cash flow forecasts are prepared by either himself or the Head of Finance, assisted by the Trainee Accountant.</p> <p>There is only one forecast, which is on a daily basis, and it was confirmed by discussion with the Corporate Accountant and by review of the forecast, that it is updated as far as possible for the current financial year and shows adequate information for at least the next three weeks.</p>		
1.21	The Funding Manager is responsible for maintaining a Grants Register detailing grants receivable throughout the year with dates, which is used in the preparation of the cash flow forecasts.	Yes	<p>The Funding Manager confirmed that he maintains a Grants Register, used in the preparation of the cash flow forecasts, which is up to date and as complete and accurate as possible. A review of the latest version of the register confirmed that all the major funding for 2009/10 has been entered, with the 2008/09 comparatives also recorded; the only significant funding not yet recorded is for the Safety camera scheme which was £1,161k for 2008/09, but which is currently unknown for 2009/10.</p> <p>Although there are no dates on the register, the Funding Manager advises that the funding is generally payable at the same time as in previous years, usually quarterly, and that the preparers of the cash flow forecasts would know this or would verbally confirm the dates with him; he would inform them if there were any changes.</p>		